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LOCAL AUDIT & FINANCE DIV.

TOWNSHIP OF VICTORY  
Mason County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2005

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Victory	<b>County</b> Mason
<b>Audit Date</b> March 31, 2005	<b>Opinion Date</b> July 29, 2005	<b>Date Accountant Report Submitted to State:</b> August 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF VICTORY  
Mason County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## INDEPENDENT AUDITOR'S REPORT

July 29, 2005

To the Township Board  
Township of Victory  
Mason County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Victory, Mason County, Michigan as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Victory's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Victory, Mason County, Michigan as of March 31, 2005, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF VICTORY  
Mason County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2005

The Management's Discussion and Analysis report of the Township of Victory covers the Township's financial performance during the year ended March 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2005, totaled \$484,493.46 for governmental activities. Overall total capital assets remained approximately the same.

Overall revenues were \$174,543.08 from governmental activities. Governmental activities had a \$3,343.72 increase in net assets.

Taxable value increased by approximately \$2,402,176.00.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, the Cemetery Perpetual Care Fund, the Public Improvement Fund and the Current Tax Collection Fund.

TOWNSHIP OF VICTORY  
Mason County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, the Cemetery Perpetual Care Fund and the Public Improvement Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

During the year we did road improvements totaling \$92,039.77.

Our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are roads which incurred expenses of \$92,039.77.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$1,601.00 in capital assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact:

Barbara J. Egeler, Clerk  
4118 N. Victory Corner Road  
Ludington, MI 49431  
(231) 843-3607

Audrey A. Keith, Treasurer  
940 W. Fountain Road  
Scottville, MI 49454  
(231) 757-2238

TOWNSHIP OF VICTORY  
Mason County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2005

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	474 896 45
Taxes receivable	<u>5 341 79</u>
Total Current Assets	<u>480 238 24</u>
NON-CURRENT ASSETS:	
Capital Assets	40 732 00
Less: Accumulated Depreciation	<u>(35 400 25)</u>
Total Non-current Assets	<u>5 331 75</u>
TOTAL ASSETS	<u><u>485 569 99</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>1 076 53</u>
Total Current Liabilities	<u>1 076 53</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>1 076 53</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	5 331 75
Reserved for cemetery care	65 226 83
Unrestricted	<u>413 934 88</u>
Total Net Assets	<u>484 493 46</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>485 569 99</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF VICTORY  
Mason County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2005

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	12 544 89	-	(12 544 89)
General government	58 018 55	23 233 46	(34 785 09)
Public safety	5 705 85	-	(5 705 85)
Public works	92 340 65	-	(92 340 65)
Culture and recreation	2 589 42	-	(2 589 42)
Total Governmental Activities	<u>171 199 36</u>	<u>23 233 46</u>	<u>(147 965 90)</u>
General Revenues:			
Property taxes			30 692 50
State revenue sharing			102 752 87
Interest			12 347 52
Miscellaneous			<u>5 516 73</u>
Total General Revenues			<u>151 309 62</u>
Change in net assets			3 343 72
Net assets, beginning of year			<u>481 149 74</u>
Net Assets, End of Year			<u>484 493 46</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF VICTORY  
Mason County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2005

	<u>General</u>	<u>Public Improvement</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	126 783 29	282 886 33	65 226 83	474 896 45
Taxes receivable	<u>5 341 79</u>	<u>-</u>	<u>-</u>	<u>5 341 79</u>
Total Assets	<u>132 125 08</u>	<u>282 886 33</u>	<u>65 226 83</u>	<u>480 238 24</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	<u>1 076 53</u>	<u>-</u>	<u>-</u>	<u>1 076 53</u>
Total liabilities	<u>1 076 53</u>	<u>-</u>	<u>-</u>	<u>1 076 53</u>
Fund equity:				
Fund balances:				
Reserved for cemetery care	-	-	65 226 83	65 226 83
Unreserved:				
Undesignated	<u>131 048 55</u>	<u>282 886 33</u>	<u>-</u>	<u>413 934 88</u>
Total fund equity	<u>131 048 55</u>	<u>282 886 33</u>	<u>65 226 83</u>	<u>479 161 71</u>
Total Liabilities and Fund Equity	<u>132 125 08</u>	<u>282 886 33</u>	<u>65 226 83</u>	<u>480 238 24</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF VICTORY  
Mason County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
March 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	479 161 71
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	40 732 00
Accumulated depreciation	<u>(35 400 25)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>484 493 46</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF VICTORY  
Mason County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2005

	<u>General</u>	<u>Public Improvement</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
Revenues:				
Property taxes	30 692 50	-	-	30 692 50
Licenses and permits	1 350 00	-	-	1 350 00
State revenue sharing	102 752 87	-	-	102 752 87
Charges for services – PTAF	13 283 46	-	-	13 283 46
Charges for services – other	2 300 00	-	6 300 00	8 600 00
Interest	4 264 69	6 155 02	1 927 81	12 347 52
Miscellaneous	5 516 73	-	-	5 516 73
Total revenues	<u>160 160 25</u>	<u>6 155 02</u>	<u>8 227 81</u>	<u>174 543 08</u>
Expenditures:				
Legislative:				
Township Board	12 544 89	-	-	12 544 89
General government:				
Supervisor	6 045 25	-	-	6 045 25
Elections	1 653 06	-	-	1 653 06
Assessor	15 447 95	-	-	15 447 95
Clerk	7 967 71	-	-	7 967 71
Board of Review	1 292 52	-	-	1 292 52
Treasurer	10 383 66	-	-	10 383 66
Building and grounds	6 017 99	-	-	6 017 99
Cemetery	8 810 16	-	-	8 810 16
Public safety:				
Fire protection	5 705 85	-	-	5 705 85
Public works:				
Highways and streets	92 039 77	-	-	92 039 77
Street lighting	300 88	-	-	300 88
Culture and recreation:				
Parks and recreation	2 589 42	-	-	2 589 42
Capital outlay	1 601 00	-	-	1 601 00
Total expenditures	<u>172 400 11</u>	<u>-</u>	<u>-</u>	<u>172 400 11</u>
Excess (deficiency) of revenues over expenditures	<u>(12 239 86)</u>	<u>6 155 02</u>	<u>8 227 81</u>	<u>2 142 97</u>
Other financing sources (uses):				
Operating transfers in	3 078 63	35 000 00	-	38 078 63
Operating transfers out	(35 000 00)	-	(3 078 63)	(38 078 63)
Total other financing sources (uses)	<u>(31 921 37)</u>	<u>35 000 00</u>	<u>(3 078 63)</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(44 161 23)</u>	<u>41 155 02</u>	<u>5 149 18</u>	<u>2 142 97</u>
Fund balances, April 1	<u>175 209 78</u>	<u>241 731 31</u>	<u>60 077 65</u>	<u>477 018 74</u>
Fund Balances, March 31	<u>131 048 55</u>	<u>282 886 33</u>	<u>65 226 83</u>	<u>479 161 71</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF VICTORY  
Mason County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2005

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 2 142 97

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(400 25)
Capital Outlay	<u>1 601 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 3 343 72

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF VICTORY  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Victory, Mason County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Victory. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF VICTORY  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Capital Projects Fund

This fund is used to account for the acquisition or construction of major capital facilities.

Permanent Fund

The Cemetery Perpetual Care Fund is used to account for amounts received for maintenance of the cemetery.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenues that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2004 tax roll millage rate was .8981 mills, and the taxable value was \$33,919,955.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF VICTORY  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	18-50 years
Furniture and equipment	4-10 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$5,331.75.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.

TOWNSHIP OF VICTORY  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 2 – Budgets and Budgetary Accounting (continued)

3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated four banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>474,896.45</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.



TOWNSHIP OF VICTORY  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 3 – Deposits and Investments (continued)

	<u>Bank Balances</u>
Insured (FDIC)	229 090 78
Uninsured and Uncollateralized	<u>251 052 99</u>
Total Deposits	<u>480 143 77</u>

The Township of Victory did not have any investments as of March 31, 2005.

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	<u>Balance 4/1/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/05</u>
<u>Governmental Activities:</u>				
Land	4 131 00	-	-	4 131 00
Buildings	31 000 00	-	-	31 000 00
Equipment	<u>4 000 00</u>	<u>1 601 00</u>	<u>-</u>	<u>5 601 00</u>
Total	39 131 00	1 601 00	-	40 732 00
Accumulated Depreciation	<u>(35 000 00)</u>	<u>(400 25)</u>	<u>-</u>	<u>(35 400 25)</u>
Net Capital Assets	<u>4 131 00</u>	<u>1 200 75</u>	<u>-</u>	<u>5 331 75</u>

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full-time employees. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended March 31, 2005, was \$2,076.32.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Victory does not issue building permits.

TOWNSHIP OF VICTORY  
Mason County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 9 – Operating Transfers

The amounts of interfund transfers are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	3 078 63	Cemetery Perpetual Care	3 078 63
Public Improvement	<u>35 000 00</u>	General	<u>35 000 00</u>
Total	<u>38 078 63</u>	Total	<u>38 078 63</u>

TOWNSHIP OF VICTORY  
Mason County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	27 400 00	27 400 00	30 692 50	3 292 50
Licenses and permits	1 500 00	1 500 00	1 350 00	(150 00)
State revenue sharing	96 000 00	96 000 00	102 752 87	6 752 87
Charges for services:				
Property tax administration	8 100 00	8 100 00	13 283 46	5 183 46
Other	3 500 00	3 500 00	2 300 00	(1 200 00)
Interest	2 500 00	2 500 00	4 264 69	1 764 69
Miscellaneous	3 600 00	3 600 00	5 516 73	1 916 73
Total revenues	<u>142 600 00</u>	<u>142 600 00</u>	<u>160 160 25</u>	<u>17 560 25</u>
Expenditures:				
Legislative:				
Township Board	20 000 00	20 000 00	12 544 89	(7 455 11)
General government:				
Supervisor	7 500 00	7 500 00	6 045 25	(1 454 75)
Elections	2 500 00	2 500 00	1 653 06	(846 94)
Assessor	20 000 00	20 000 00	15 447 95	(4 552 05)
Clerk	8 000 00	8 000 00	7 967 71	(32 29)
Board of Review	1 500 00	1 500 00	1 292 52	(207 48)
Treasurer	12 500 00	12 500 00	10 383 66	(2 116 34)
Building and grounds	25 000 00	25 000 00	6 017 99	(18 982 01)
Cemetery	12 000 00	12 000 00	8 810 16	(3 189 84)
Public safety:				
Fire protection	4 000 00	6 800 00	5 705 85	(1 094 15)
Public works:				
Highways and streets	116 433 12	116 433 12	92 039 77	(24 393 35)
Street lighting	1 000 00	1 000 00	300 88	(699 12)
Culture and recreation:				
Parks and recreation	20 000 00	20 000 00	2 589 42	(17 410 58)
Capital outlay	2 000 00	2 000 00	1 601 00	(399 00)
Contingency	20 000 00	17 200 00	-	(17 200 00)
Total expenditures	<u>272 433 12</u>	<u>272 433 12</u>	<u>172 400 11</u>	<u>(100 033 01)</u>
Excess (deficiency) of revenues over expenditures	<u>(129 833 12)</u>	<u>(129 833 12)</u>	<u>(12 239 86)</u>	<u>117 593 26</u>
Other financing sources (uses):				
Operating transfers in	-	-	3 078 63	3 078 63
Operating transfers out	(40 000 00)	(40 000 00)	(35 000 00)	5 000 00
Total other financing sources (uses)	<u>(40 000 00)</u>	<u>(40 000 00)</u>	<u>(31 921 37)</u>	<u>8 078 63</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(169 833 12)</u>	<u>(169 833 12)</u>	<u>(44 161 23)</u>	<u>125 671 89</u>
Fund balance, April 1	<u>169 833 12</u>	<u>169 833 12</u>	<u>175 209 78</u>	<u>5 376 66</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>131 048 55</u>	<u>131 048 55</u>

TOWNSHIP OF VICTORY  
Mason County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended March 31, 2005

	<u>Balance</u> <u>4/1/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/05</u>
<u>Assets</u>				
Cash in Bank	<u>-</u>	<u>958 910 58</u>	<u>958 910 58</u>	<u>-</u>
<u>Liabilities</u>				
Due to other funds	-	39 963 16	39 963 16	-
Due to others	<u>-</u>	<u>918 947 42</u>	<u>918 947 42</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>958 910 58</u>	<u>958 910 58</u>	<u>-</u>

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

July 29, 2005

To the Township Board  
Township of Victory  
Mason County, Michigan

We have audited the financial statements of the Township of Victory for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Victory in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board  
Township of Victory  
Mason County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2005. The implementation of this pronouncement for the Township of Victory began with the year ended March 31, 2005. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2005.

To the Township Board  
Township of Victory  
Mason County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants